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FISCAL IMPACT REPORT

SPONSOR: Feldman DATE TYPED: 2/6/03 HB _____

SHORT TITLE: Solar or Wind Energy Tax Credit SB 348

ANALYST: Neel

REVENUE

Estimated Revenue		Subsequent Years Impact	Recurring or Non-Rec	Fund Affected
FY03	FY04			
	(\$1,800.0)	(\$1,800.0)	Recurring	General Fund

(Parenthesis () Indicate Revenue Decreases)

SOURCES OF INFORMATION

LFC files

Responses Received From

Energy, Minerals and Natural Resources Department
 No Response
 Taxation and Revenue Department (TRD)

SUMMARY

Synopsis of Bill

Senate Bill 348 enacts a new section of the Income Tax Act and provides for a solar or wind energy tax credit, allowing taxpayers to claim 15% of the installed cost of a solar or wind energy system, not to exceed \$3,000. Personal and corporate tax credits are included. A duration of ten years is established for purchase and installation of solar or wind energy systems that are eligible for tax credits: July 2003 through June 2013. Taxpayers may claim credit against their state income tax liability for the taxable year in which the system is installed, followed by five consecutive years during which unused credit may be claimed.

A solar or wind energy system is defined as a system that produces electricity or heat from the sun and includes only the following system types: 1) photovoltaic (PV), 2) wind, 3) solar domestic hot water, and 4) active solar space heating. Solar or wind energy systems providing electric-

ity or heat to the end uses of swimming pools, saunas, and hot tubs are not eligible for a tax credit. The total installed costs eligible for claiming tax credits are purchase, installation, and warranty costs. The system must have a minimum warranty of one year from date of completion of the system installation. The cost of an extended warranty may be included as an installed cost.

FISCAL IMPLICATIONS

EMNRD makes the following assumptions regarding the potential fiscal impact:

- Current level of small solar and wind energy business activity in New Mexico indicates that approximately 820 solar and 90 wind systems are installed each year,
- Based on the previous New Mexico tax credit program and an existing, well-established tax credit program in Oregon, an average credit claim amount of \$1,000 would be reasonable, even with a potential claim of \$3,000 per system
- There will probably be increased installation activity compared to current activity, so it is assumed that installation activity will double to 1,640 solar and 180 wind energy systems during the proposed 10-year period.

The estimated annual revenue reduction would be \$1,800.0.

OTHER SUBSTANTIVE ISSUES

The combination of the 15% credit allowance and the cap of \$3,000 will enable taxpayers to fully utilize the tax credit for a system installation cost of \$20,000. Up to \$20,000, a prorated portion of the \$3,000 cap could be claimed. Virtually all conventional solar domestic hot water and active solar space heating systems and many PV and wind energy systems can be installed at a residence for this amount, or less. Some PV and wind energy systems may have an installed cost greater than \$20,000. Any additional cost greater than \$20,000 would be borne completely by the taxpayer.

Low-income and middle-income taxpayers may not be able to effectively utilize tax credits to install solar and wind energy systems due to their low state income tax liability. Example: a taxpayer who has an average annual liability of \$100 for state income taxes would only be eligible for a \$600 tax credit.

Solar or wind energy tax credits are not available to federal, state, local, and tribal governments, as well as public schools, because they do not incur any income tax liability; other incentives are therefore required to promote the use of renewable energy for these entities.

SN/prr